

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON UMZINYATHI DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Umzinyathi District Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting Officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Umzinyathi District Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Irregular expenditure

8. As disclosed in note 25 to the financial statements, the municipality has incurred irregular expenditure of R2,018 million, as a consequence of not complying with its supply chain management policy.

Restatement of corresponding figures

9. As disclosed in notes 2 and 31 to the financial statements, the municipality has adjusted corresponding prior years' figures; as a result of errors discovered during the 2011-2012 financial year.

Additional matter

10. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

11. The supplementary information set out on pages xx to xx do not form part of the financial statements and is presented as additional information. I have not audited these schedules, and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

13. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.
14. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

15. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Additional matters

16. Although no material findings concerning the usefulness and reliability of the performance information was identified in the annual performance report, I draw attention to the following matters below.

No documented standard procedures

17. The municipality did not have documented and approved internal operating procedure manuals to address collection, recording, processing, monitoring and reporting of performance information to enable consistent collection and reporting on its selected development objectives, as required by section 62(1)(b) and (c) of the MFMA.

No performance report for Uthukela Water

18. The district municipality did not submit a performance report for Uthukela Water, as required by section 72(1)(a)(iv) of the MFMA

Mid-year budget and performance assessment was not in the required format

19. The mid-year budget and performance assessment of the municipality was not in the format specified in schedule C of the Local Government budget regulations, as required by section 72(1)(a)(i) of the MFMA.

Compliance with laws and regulations

20. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Annual financial statements

21. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements with regards to the netting off of debtors against corresponding creditor balance and disclosure of assets relating to Uthukela Water (Pty) Ltd.

Audit committee

22. The audit committee did not substantially perform its functions, as required by section 166 of the MFMA.

Internal control

23. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matter reported below under the fundamentals of internal control is limited to the significant deficiencies that resulted in the findings on the performance report and compliance with laws and regulations included in this report.

Financial and performance management

24. Management did not implement effective controls over the preparation, review and reconciliation of financial records as well as the reporting of performance against predetermined objectives. This is evidenced by the material corrections in the financial statements and material findings on the usefulness of the annual performance report.

Governance

25. The audit committee did not adequately assess the effectiveness of controls and responses to risks, as evidenced by material corrections in the financial statements and the deficiencies identified on the usefulness of the annual performance report.

Auditor-General

Pietermaritzburg

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

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